

Message Text

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15

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DODE-00 EB-11 FRB-03 H-03 INR-11 INT-08 L-03 LAB-06

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DRAFTED BY STR:L.LEE/COMMERCE:OTP:H.BALE:SMM

APPROVED BY STR:J.A.MCNAMARA

TREASURY:M.FELDMAN

STATE:G.STREEB

LABOR:B.WHITE

TARIFF COMMISSION:W.HART

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FM SECSTATE WASHDC

TO USMISSION GENEVA

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E.O. 1165 :N/A

TAGS: ETRD, SZ, GATT

SUBJECT: MTN: GATT SECRETARIAT STUDY OF EFFECTS OF MFN

TARIFF CUTS ON GSP BENEFITS

1. AT THE JULY TNC MEETING DIRECTOR GENERAL LONG ANNOUNCED THAT GATT SECRETARIAT WAS PREPARED TO SHOW THE ARITHMETIC IMPACT OF VARIOUS MFN TARIFF CUTTING FORMULAE ON GSP PREFERENTIAL MARGINS. IT IS OUR UNDERSTANDING THAT THE SECRETARIAT PLANS TO APPLY ONE OF THE THREE Y AX PLUS B HARMONIZATION FORMULAE (Y RATE OF REDUCTION; X ORIGINAL DUTY RATE; A AND B ARE NEGOTIATED VARIABLES) DISCUSSED IN CTIP IN 1972 TO GROUPED AVERAGE TARIFF LEVELS FOR EACH DEVELOPED COUNTRY. IN THE CASE OF STAGED REDUCTIONS, THE STUDY WILL

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INDICATE THE MODIFICATIONS OF THE MARGINS OF PREFERENCE

CORRESPONDING TO THE VARIOUS STAGES OF THE IMPLEMENTATION ENVISAGED. THE ANALYSIS WILL SHOW CHANGES OF AVERAGE MFN TARIFF LEVELS VIS-A-VIS GSP RATES FOR THE 30 GROUPS OF INDUSTRIAL PRODUCTS (COM.IND/W/111/ADD.1), DIVIDED INTO ITEMS ENTERING AT ZERO GSP RATES AND AT DUTIABLE GSP RATES. THE SECRETARIAT IS EXPECTED TO COMPLETE THE STUDYBY SEPTEMBER 1.

2. MISSION IS REQUESTED TO CONFIRM THIS UNDERSTANDING. IF ABOVE UNDERSTANDING IS SUBSTANTIALLY CORRECT, MISSION IS REQUESTED TO CONVEY TO SECRETARIAT SERIOUS US RESERVATIONS ABOUT THE LIMITATIONS OF THE PROPOSED ANALYSIS.

3. THE US VIEWS MFN/GSP ANALYSIS AS USEFUL MEANS OF ARRIVING AT BETTER UNDERSTANDING OF OVERALL EFFECTS OF TARIFF REDUCTION, BUT WE DO NOT BELIEVE IT DESIRABLE TO LIMIT SUCH ANALYSIS TO ANY SINGLE FORMULA OR TECHNIQUE. ON THE CONTRARY, IN THE INTEREST OF ASSURING EQUIVALENT CONSIDERATION OF ALL PROPOSED TARIFF CUTTING FORMULAE, AS WELL AS MEANINGFUL LDC PARTICIPATION IN SELECTION OF MTN TARIFF REDUCTION FORMULA, US STRONGLY URGES THAT ALL ILLUSTRATIVE TARIFF FORMULAE DISCUSSED IN CTIP BE SUBJECT TO MFN/GSP ANALYSIS.

4. ACCORDINGLY, US URGES THAT, AT A MINIMUM, A LINEAR FORMULA PLUS A FORMULA COMBINING ELEMENTS OF LINEARITY, HARMONIZATION AND REDUCTION OF NON-GSP PREFERENCE TARIFF MARGINS BE INCLUDED IN ANALYSIS. SPECIFIC FORMULA US REQUESTS BE INCLUDED READS: $Y = AX + B + A(X - P)$, WHERE X IS THE PREVAILING MFN TARIFF RATE AND P IS THE LOWEST NON-MFN TARIFF RATE APPLIED TO IMPORTS FROM DEVELOPED COUNTRIES ONLY (I.E., TARIFF PREFERENCES APPLIED TO IMPORTS FROM LESS DEVELOPED COUNTRIES UNDER GSP OR OTHER SCHEMES ARE NOT TO BE FACTORED INTO FORMULA). IN ORDER TO CLARIFY THE SITUATION WE URGE THAT SECRETARIAT INDICATE THAT ANALYSIS OF SELECTED FORMULAE IS MEANT TO BE ILLUSTRATIVE ONLY, AND DOES NOT PRECLUDE FURTHER SUB-

MISSIONS AND ANALYSES OF ADDITIONAL TECHNIQUES.

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5. AT DISCRETION OF MISSION AND IN APPROPRIATE MANNER, IT SHOULD QUERY SECRETARIAT ABOUT BACKGROUND TO DG'S AGREEMENT TO INITIATE GSP ANALYSIS. MISSION MAY NOTE USG SURPRISE AT UNEXPECTED NATURE OF DG'S ANNOUNCEMENT ON THIS AT TNC WITHOUT PRIOR CONSULTATION WITH USG AND EXPRESS CONCERN OVER FUTURE SUCH ANNOUNCEMENTS. KISSINGER

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